

ANNOUNCEMENTS

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Visit the Department of Health web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are patient guides, hospital discharge data and reports, and hospital financial data and reports. Also included are Directory of Hospitals, CHARS Procedure Manual, *Accounting and Reporting Manual for Hospitals*, Charity Care reports and *hospTRENDSt*.

Your opinions are important to us. Please let us know what you like or don't like about the content and presentation of the *hospTRENDSt* report. Postal and Internet addresses as well as telephone and FAX numbers are listed on page 5 of this issue.

PREFACE

All licensed hospitals in the State of Washington submit summary financial and utilization data to the Department of Health following each calendar quarter. Reported data are edited, summarized, and analyzed by Hospital and Patient Data Systems staff. Specific data elements are defined in the Department's *Accounting and Reporting Manual for Hospitals*. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide information describing emerging hospital utilization and financial trends to all concerned parties.

Rather than focusing on individual calendar quarters, the data in this report are aggregated into twelve month periods consisting of four calendar

quarters each. This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

The period covered by this report includes the last two calendar quarters of 2002 and the first two calendar quarters of 2003. It provides a mid-year view between the 2002 and 2003 calendar years. However, it is important to remember that this preliminary view is subject to change. Since audits are normally performed on an annual basis, data submitted on a quarterly basis have not been subjected to the audit review process. The hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. Any revisions resulting from the audit process will be reflected in the hospital's year-end reports. In addition to reflecting audited data, year-end reports also provide substantially greater detail, allowing analysis of the information provided in greater depth.

SUMMARY

Total patient service revenue advanced by 15.5% while deductions from revenue grew by 21.7%, resulting in an increase of 10.3% in net patient service revenue.

The increase of 9.9% in total operating expenses combined with a growth of 1.9% in adjusted discharges resulted in operating expenses per adjusted discharge that were 7.9% over the year earlier level. This is considerably higher than the 2.1% advance in the overall consumer price index and slightly above the 7.3% annual increase in the hospital services component of the index.

Contractual adjustments grew by 22.2% to a new high of \$7.35 billion. Each category of contractual adjustments has grown more rapidly than the corresponding patient service revenue every reporting period since calendar year 1997. With the deductible proportion increasing to 47.79% a hospital must bill \$1.92 to realize \$1.00 in net revenue.

Net operating income reached a new high of \$253 million for the twelve month period ended June 30, 2003. In addition, net operating income per adjusted discharge of \$272.01 also exceeded any recorded since calendar year 1997. This net operating income resulted in an operating margin of 2.91%.

Accounts receivable dropped to an average of 59.9 days in the twelve month period ended June 30, 2003, which was a reduction of 5.4 days from the year earlier level and 21.4 days in four years. Significant reductions were recorded for each major payer category.

FINANCIAL INDICATORS

Total Patient Service Revenue

Total billed charges for patient services, which is identified as total patient service revenue, advanced by \$2.1 billion from \$13.7 billion to \$15.8 billion. This was an increase of 15.5%. By payer group, Medicare revenue increased 15.2%, Medicaid revenue grew by 18.2%, and Other payer revenue advanced by 14.9%. Medicare and Medicaid revenue have grown more rapidly than revenue for other payers in every four quarter period since the period ended March 31, 2000.

Deductions from Revenue

For the twelve months ended June 30, 2003 total deductions from revenue reached \$7.54 billion. Growing by 22.2%, contractual adjustments reached \$7.35 billion. By payer group contractual adjustments were up by 27.4% for Medicare, 24.5% for Medicaid, and 17.4% for other payers. Each category of contractual adjustments has grown more rapidly than the corresponding patient service revenue every reporting period since calendar year 1997. Contractual adjustments for Medicare and Medicaid reflect the difference between billed

charges and the amounts that are actually paid. The difference between billed charges and the payment rates negotiated with major health insurers, managed care plans, HMO's, and other contractual payers is included in contractual adjustments for other payers. Charity care grew slightly by 3.5% from the year ago total to a new high of \$190 million in the twelve month period ended June 30, 2003. This was 1.20% of total patient service revenue, which was 10.4% below the year ago level, but 26.4% above the level two years ago.

Net Patient Services Revenue

During the four quarter period ended June 30, 2003 net patient service revenue grew by 10.3%, or \$770 million, from \$7.47 billion to \$8.24 billion. Net patient service revenue is defined as the amount of revenue actually realized by hospitals. When deductions from revenue grow more rapidly than total patient service revenue, the growth rate of net patient service revenue is less than the rate of increase for total patient service revenue. This condition has existed in every four quarter period since the period ended March 31, 1996.

Operating Expenses

Growing by 9.9%, or \$722 million, operating expenses reached \$8.0 billion in the twelve month period ended June 30, 2003. Operating expenses are the costs of providing health care services to hospital patients. Increases in patient service utilization only accounted for an increase of 1.9% in operating expenses. The increase in operating expenses not related to patient volume is 7.9%. The volume adjusted increase substantially exceeded the 2.1% annual increase in the consumer price index for the same period and was slightly above the 7.3% annual increase in the hospital services component of the index.

Net Operating Income

During the four quarters ended June 30, 2003 net operating income advanced to a new high \$253 million, which was 23.9% over the year ago level. Net operating income per adjusted discharge of \$272.01 was 21.6% over the year ago level and was the highest recorded since calendar year 1997.

Net operating income is not distributed uniformly among the hospitals of Washington. A total of 40 hospitals experienced operating losses totaling \$81.3 million, while 53 hospitals realized operating gains of \$334.5 million. For individual hospitals operating results ranged from a loss of \$12.2 million to a gain of \$47.7 million. Nine hospitals had gains exceeding \$10 million for a total of \$212 million.

The gain in net operating income over the past three years was not spread uniformly. King County moved from \$8 million to \$97 million of operating income, while Eastern Washington moved from an operating income of \$24 million to an operating loss of \$4 million. While frontier rural hospitals experienced an operating loss of \$3.4 million and remote rural hospitals sustained a loss of \$12.7 million during the twelve month period ended June 30, 2003, urban hospitals recorded a gain of \$250 million. By type of ownership, not-for profit hospitals

experienced net operating income of \$229 million, while district hospitals lost \$3.9 million and proprietary hospitals realized \$15.0 million of net operating income.

<u>Net Operating Income</u>	<u>Twelve Months Ended</u>		<u>Change</u>	<u>Percent Change</u>
	<u>June 30, 2000</u>	<u>June 30, 2003</u>		
Statewide Total	\$118,794,234	\$253,201,466	+\$134,407,232	+113.1%
By Region:				
King County	8,194,903	96,785,988	+88,591,085	+1081.1%
Puget Sound	72,380,842	131,790,971	+59,410,129	+82.1%
Southwest Washington	8,714,707	16,420,871	+7,706,164	+88.4%
Central Washington	5,687,936	12,484,991	+6,797,055	+119.5%
Eastern Washington	23,815,846	-4,281,355	-28,097,201	-118.0%
By Type of Ownership				
District	3,740,172	-3,940,226	-7,680,398	-205.3%
Not-for-Profit	94,881,415	229,433,751	+134,552,336	+141.8%
Proprietary	8,773,400	15,012,389	+6,238,989	+71.1%
By Population Density:				
Frontier Rural	2,792,657	-3,435,883	-6,228,540	-223.0%
Remote Rural	-1,411,136	-12,708,954	-11,297,818	-800.6%*
Less Remote Rural	7,599,370	18,941,366	11,341,996	+149.2%
Urban	109,813,343	250,404,937	+140,591,594	+128.0%

*Mathematically, this is a positive percentage change. However, since the change is downward, a negative percentage change is less misleading.

UTILIZATION INDICATORS

Discharges, Patient Days, and Length of Stay

Discharges and patient days are the primary indicators of inpatient activity. Discharges from Washington hospitals continued to grow, reaching a total of 516,492 discharges during the four quarters ended June 30, 2003. This was a gain of 2,521 discharges, or 0.5%, over the corresponding year ago period. During the same period patient days advanced to 2,246,860 patient days. This was an increase of 13,381 patient days, or 0.6%, over the corresponding year ago period. However,

discharges and patient days are down slightly by 0.1% and 0.4%, respectively, from the calendar year 2002 levels.

Adjusted Discharges

During the twelve month period ended June 30, 2003, adjusted discharges rose by 17,488 or 1.9% to 930,843 adjusted discharges. Adjusted discharges are utilized as an aggregate indicator of hospital activity. The calculation of adjusted discharges applies factors representing outpatient activity and skilled nursing activity to inpatient discharges.

OPERATING INDICATORS

Rates per Adjusted Discharge

Rates per adjusted discharge relate hospital financial indicators to the "average" patient. Total patient service revenue per adjusted discharge is the total bill for the average patient stay. Deductions from revenue per adjusted discharge is the portion of this average bill that is not paid by Medicare, Medicaid, or health insurers, or is written off as charity care. Net patient service revenue per adjusted discharge is the amount of revenue the hospital actually receives from the average patient stay. Operating expense per adjusted discharge is the cost of providing services to the average patient. Net operating income per adjusted discharge is the amount of money the hospital is able to earn from the average patient stay. Rates per adjusted discharge for the twelve month periods ended June 30, 2002 and June 30, 2003, and the percentage changes were:

<u>Rates per Adjusted Discharge</u>	<u>FYE 6/30/02</u>	<u>FYE 6/30/03</u>	<u>% Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$14,967.17	\$16,957.86	+13.3%
Deductions from Revenue per Adjusted Discharge	6,787.22	8,103.90	+19.4%
Net Patient Service Revenue per Adjusted Discharge	8,179.95	8,853.96	+8.2%
Total Operating Expense per Adjusted Discharge	7,956.23	8,581.95	+7.9%
Net Operating Income per Adjusted Discharge	223.72	272.01	+21.6%

FINANCIAL RATIOS

The relationships between financial indicators are reflected by financial ratios. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

Days in Accounts Receivable

Accounts receivable is the largest item in the current assets portion of the balance sheet for most hospitals. Days in accounts receivable is a measure of how "current" this asset is. In this report days in accounts receivable is calculated on an

annual gross basis. On a statewide basis accounts receivable averaged 59.9 days for the four quarter period ended June 30, 2003. This was a reduction of 5.4 days, or 8.3%, from the corresponding year earlier period. The latest average is 21.4 days below the average four years ago. This represents a reduction of \$925 million in gross accounts receivable. Medicare accounts receivable dropped by 6.0 days, or 11.3%, to 46.6 days, which is the lowest averaged achieved since the four quarter period ended September 30, 1993. Accounts receivable for Medicaid dropped by 3.3 days, or 4.6%, to 67.8 days. A reduction of 5.7 days, or 7.9%, to an average of 66.4 days was also noted for other payer groups.

Operating Margin

During the twelve month period ended June 30, 2003 operating margin reached 2.91%, which was 12.2% above the year earlier level and 60.5% over the level three years ago. Operating margin levels by region ranged from 6.10% in the Puget Sound area, to -0.44% in the Eastern Washington area. Frontier rural and remote rural hospitals experienced operating losses exceeding 5.0%, while urban hospitals generated an operating margin exceeding 3.3%.

<u>Operating Margin</u>	<u>Twelve Months Ended</u>		<u>Change</u>	<u>Percent Change</u>
	<u>June 30, 2000</u>	<u>June 30, 2003</u>		
Statewide Total	1.81%	2.91%	+1.10%	+60.5%
By Region:				
King County	0.28%	2.52%	+2.23%	+782.7%
Puget Sound	4.74%	6.10%	+1.36%	+28.6%
Southwest Washington	1.24%	1.81%	+0.57%	+46.2%
Central Washington	0.91%	1.54%	+0.63%	+68.6%
Eastern Washington	2.89%	-0.44%	-3.33%	-115.2%
By Type of Ownership:				
District	0.37%	-0.30%	-0.68%	-180.9%
Not-For-Profit	2.03%	3.65%	+1.62%	+79.5%
Proprietary	6.63%	8.10%	+1.47%	+22.1%
By Population				
Frontier Rural	5.34%	-5.56%	-10.91%	-204.1%
Remote Rural	-0.66%	-5.08%	-4.42%	-669.3%*
Less Remote Rural	1.09%	2.14%	+1.04%	+95.4%
Urban	1.96%	3.34%	+1.37%	+69.9%

*Mathematically, this is a positive percentage change. However, since the change is downward, a negative percentage change is less misleading.

Deductible Proportion

The deductible proportion compares total deductions from revenue to total patient services revenue. For the twelve month period ended June 30, 2003 the deductible proportion reached 47.79%, which was 5.4% more than the year earlier level. The deductible proportion has grown every quarter since the four quarter period ended March 31, 1996. At the current level a hospital must bill \$1.92 to realize \$1.00 in net revenue.

Contractual Proportion

The contractual proportion compares total contractual adjustments with total patient service revenue. Correspondingly, the Medicare contractual, Medicaid contractual, and other contractual proportions compare each payer group's contractual adjustments to the corresponding total patient service revenue for the same payer group. The total contractual proportion reached 46.6%, which was an increase of 5.9% and another new high during the four quarter period ended June 30, 2003. This proportion has grown continuously since calendar year 1995. The Medicare contractual proportion of 52.9%, the Medicaid contractual proportion of 49.9%, and the other payer contractual proportion of 41.4% were also new highs.

Charity Care

The charity care proportion of 1.20% for the twelve month period ended June 30, 2003 was

down 10.4% from the year earlier level, but was 26.4% above the level realized two years before. Although total charity care has reached a new high, it is not growing as rapidly as total patient service revenue.

Inpatient and Outpatient Revenue

The proportion of total revenue to inpatient revenue and the outpatient revenue percentage are alternate ways of looking at the relationship between inpatient and outpatient revenue. Between the annual periods ended June 30, 2002 and June 30, 2003 the outpatient revenue percentage reached a new high of 44.0%, while the ratio of total revenue to inpatient revenue reached a new high of 1.79.

Medicare and Medicaid Revenue

The Medicare revenue percentage and the Medicaid revenue percentage indicate the proportion of total hospital business that these programs represent. In the four quarter period ended June 30, 2003 the Medicare percentage was 34.0% and the Medicaid percentage was 15.3%. After declining for the entire time span covered by this series of reports, the Medicaid percentage reached a low of 12.9% in the four quarter period ended September 30, 1999 and has been climbing ever since. The combination of Medicare and Medicaid now account for 49.3% of total patient service revenue

hospTRENDS

Washington State

Hospital Financial and Utilization Trend Update
Quarter Ended June 30, 2003

For additional information, comments, and suggestions, or to request extra copies of this report, please contact:

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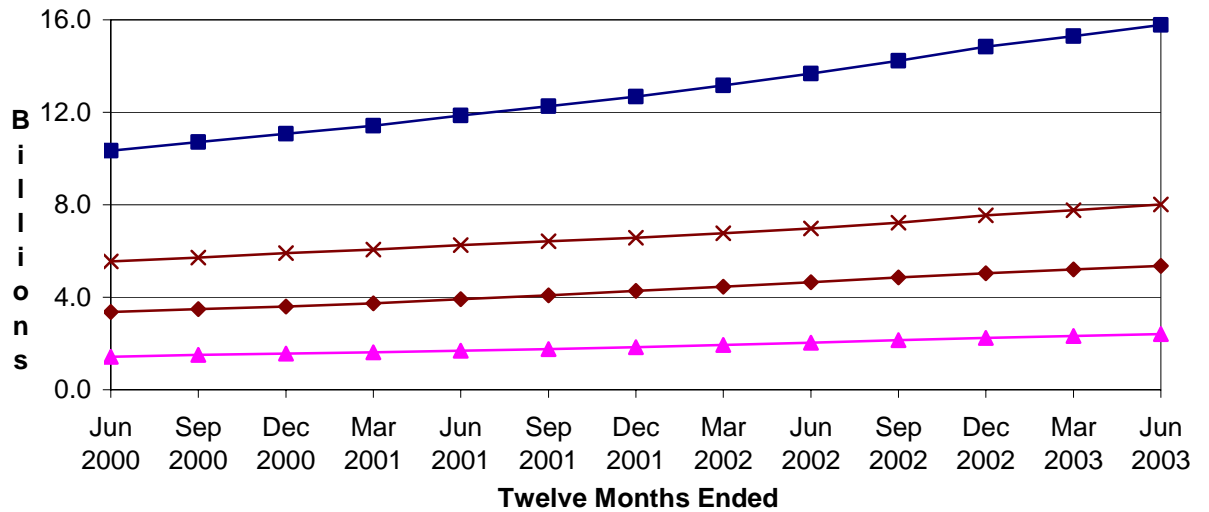
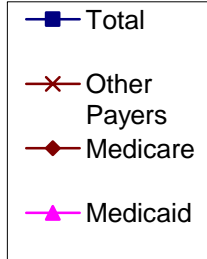
Mary Selecky, Secretary
Department of Health

Jude Van Buren, Acting Assistant Secretary
Epidemiology, Health Statistics, and Public Health Laboratories

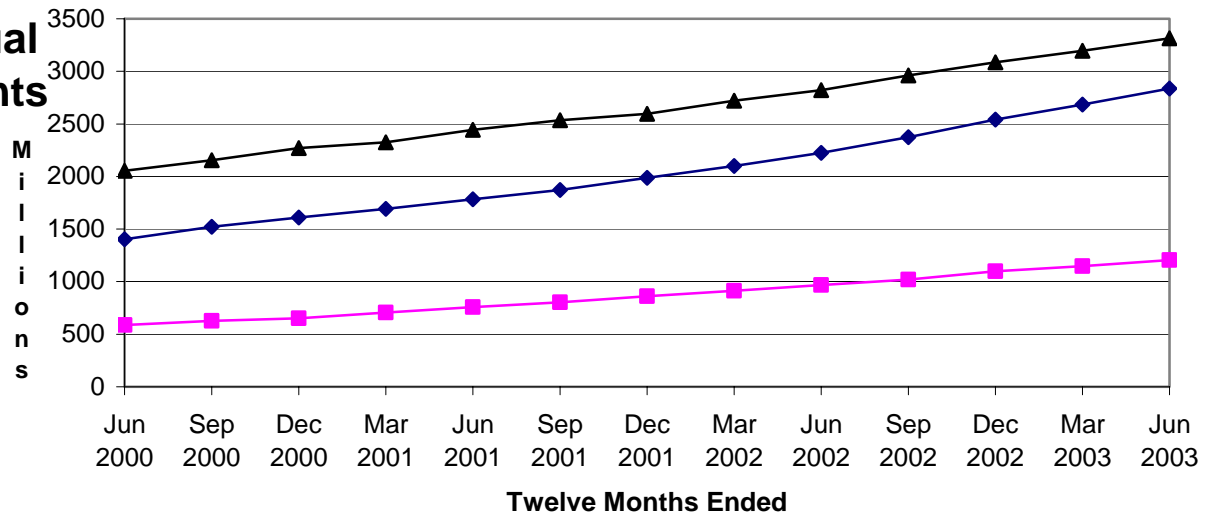
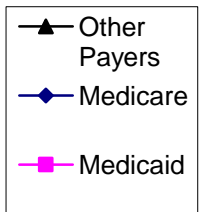
Teresa Jennings, State Registrar and Director
Center for Health Statistics

Authors: Thomas Muller and Richard Ordos

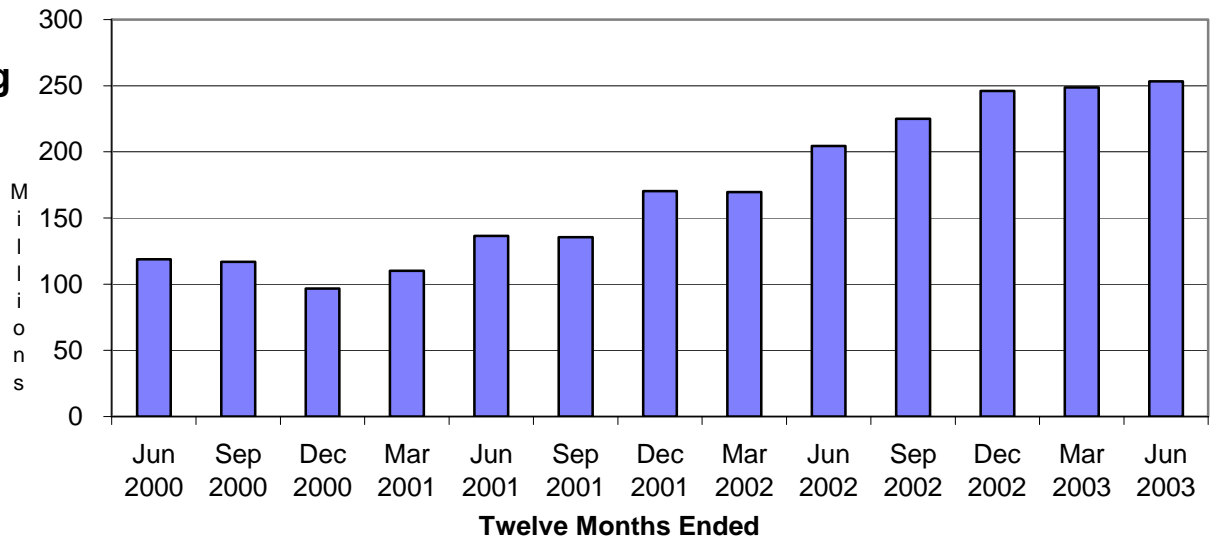
Total Patient Service Revenue



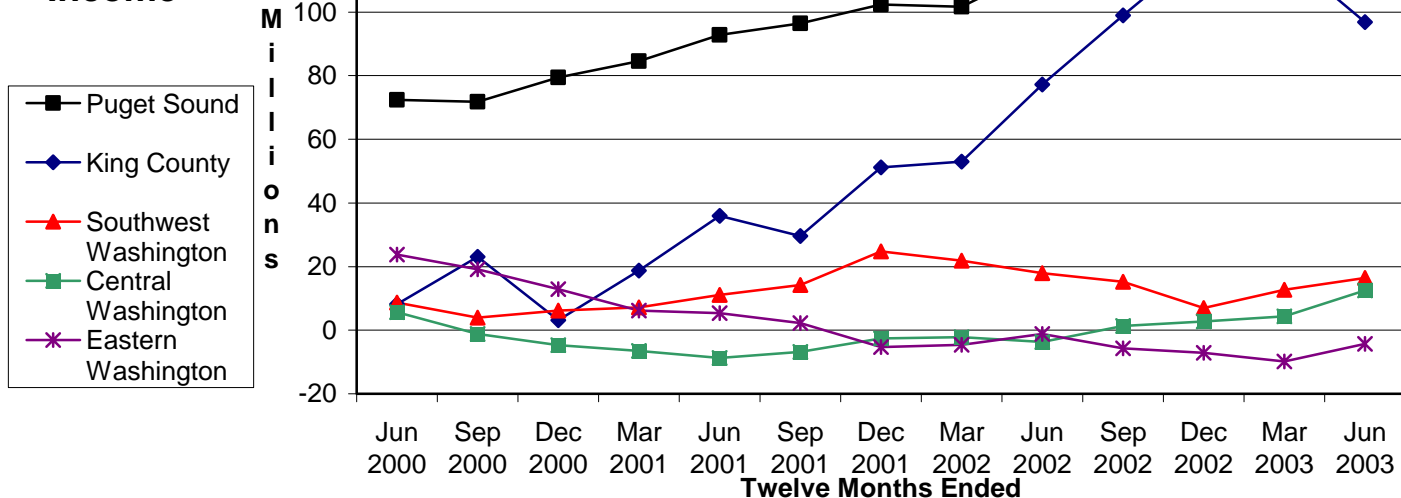
Contractual Adjustments



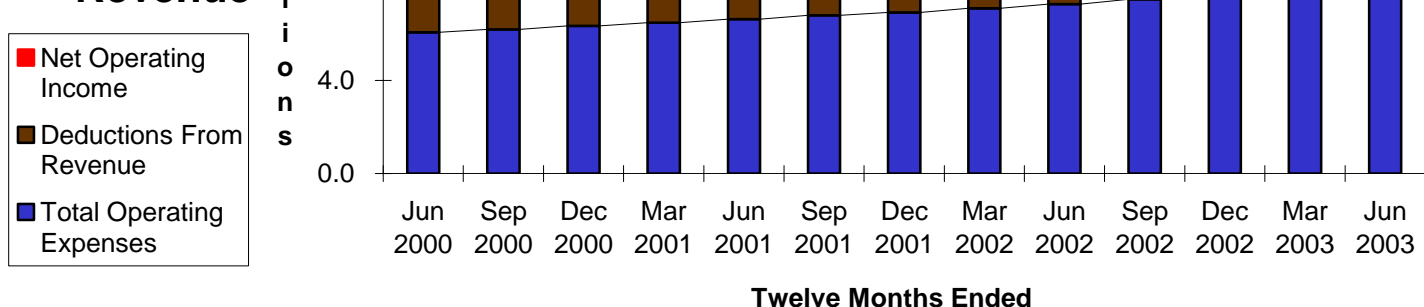
Net Operating Income



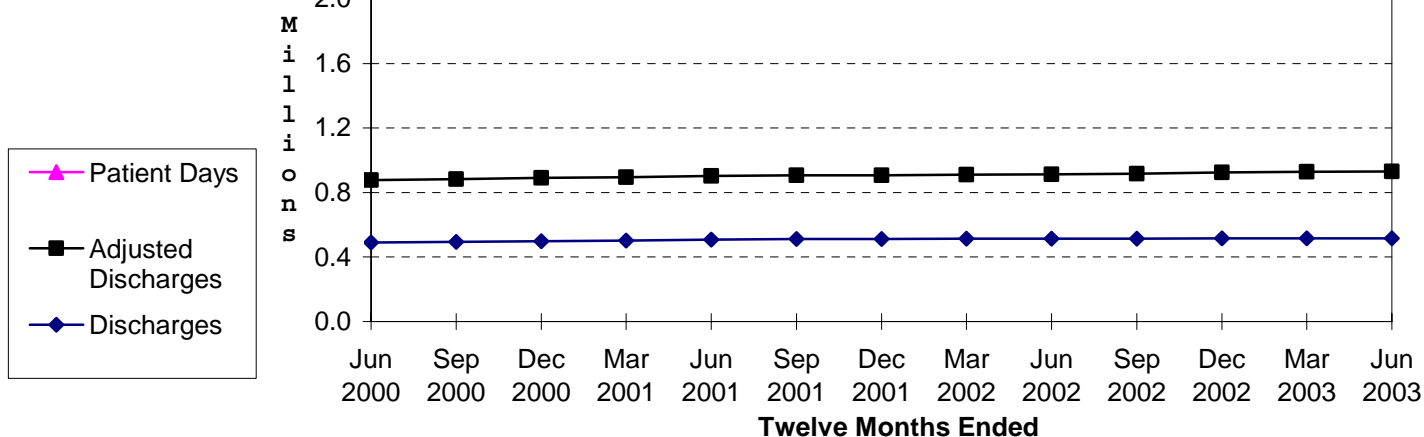
Net Operating Income



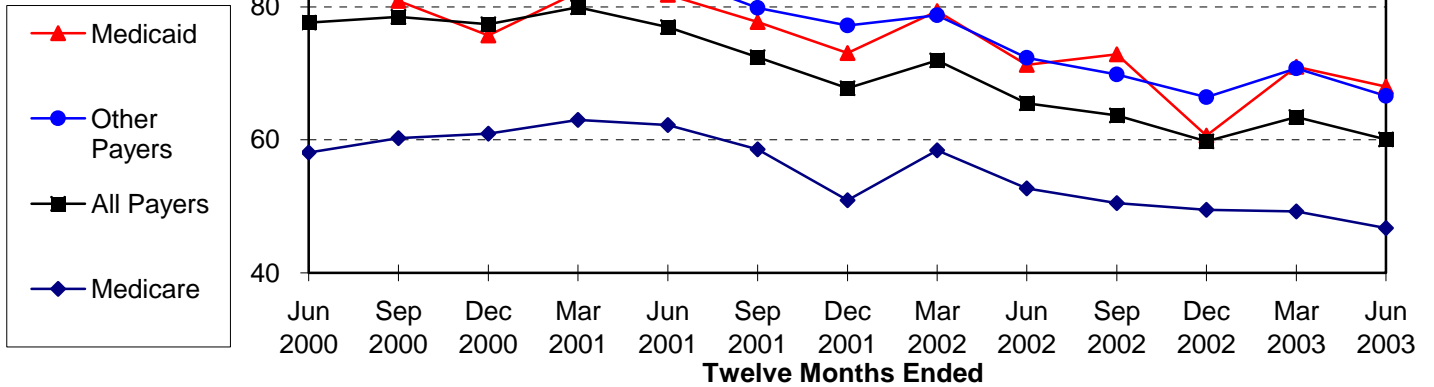
Components of Total Patient Revenue



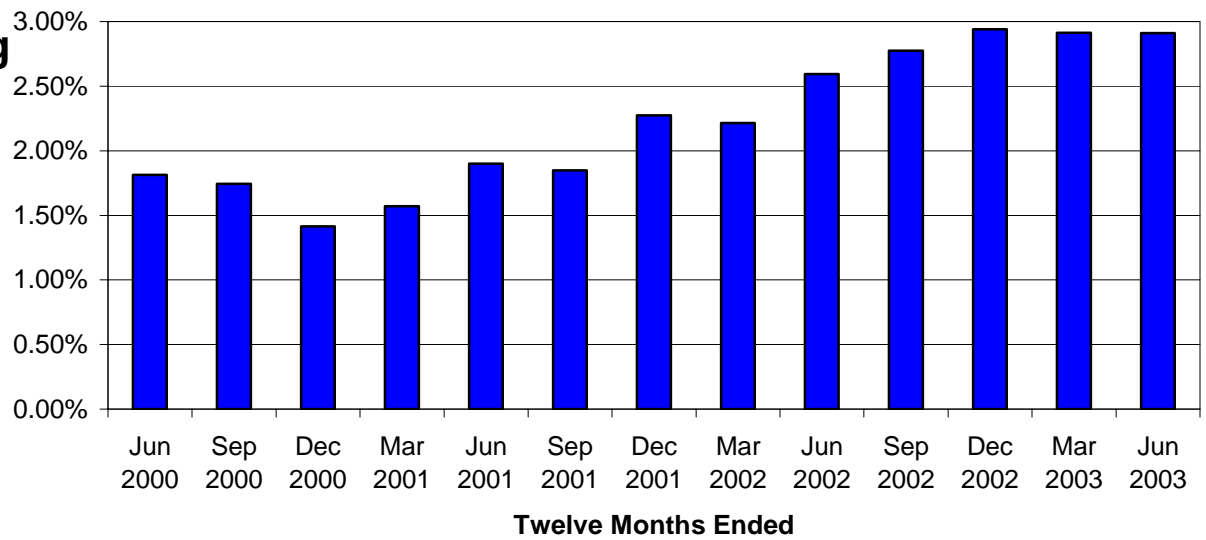
Utilization



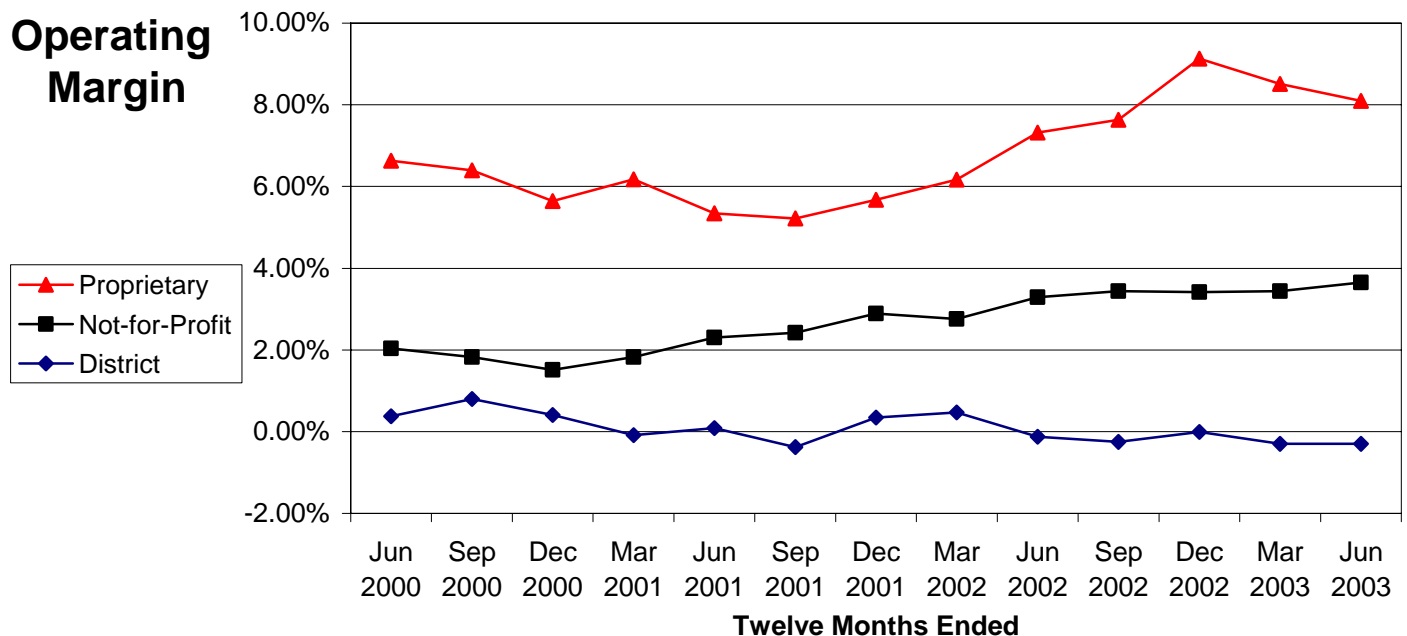
Days In Accounts Receivable



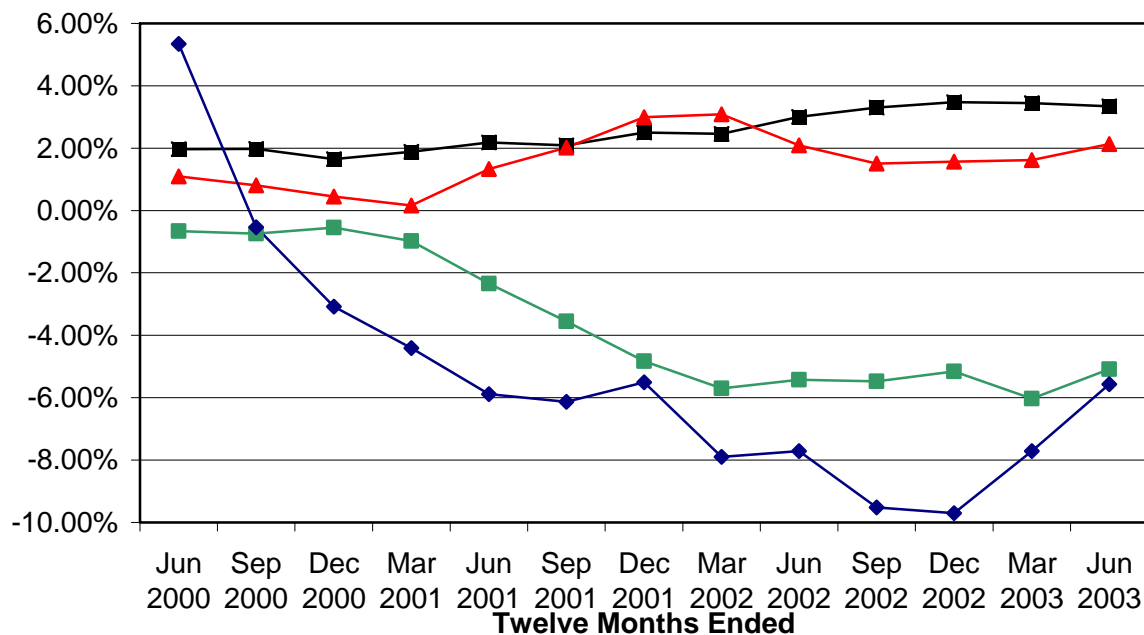
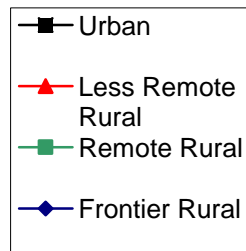
Operating Margin



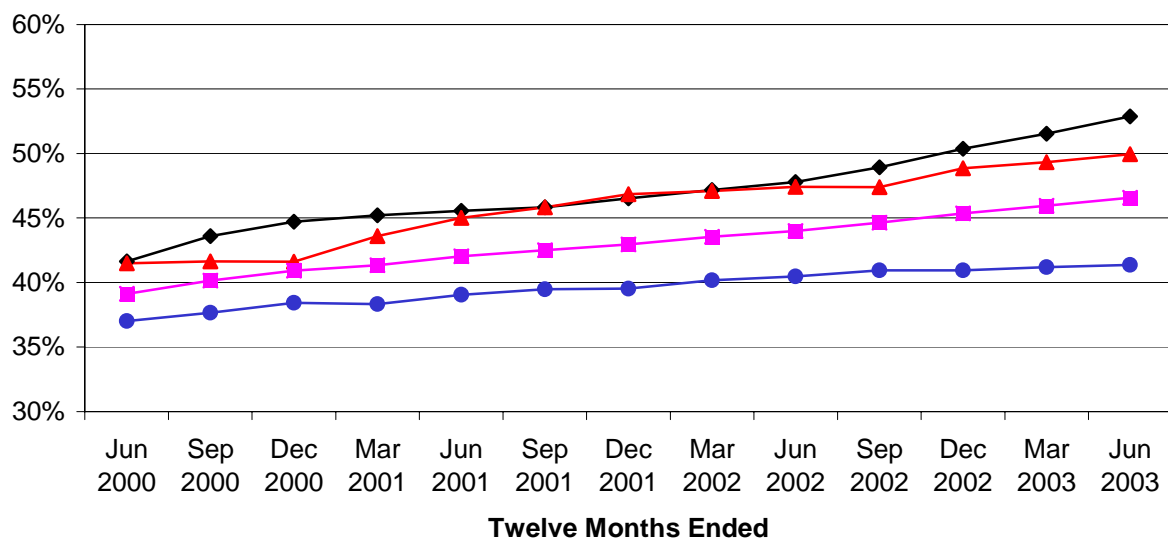
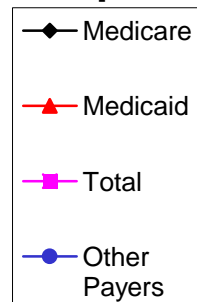
Operating Margin



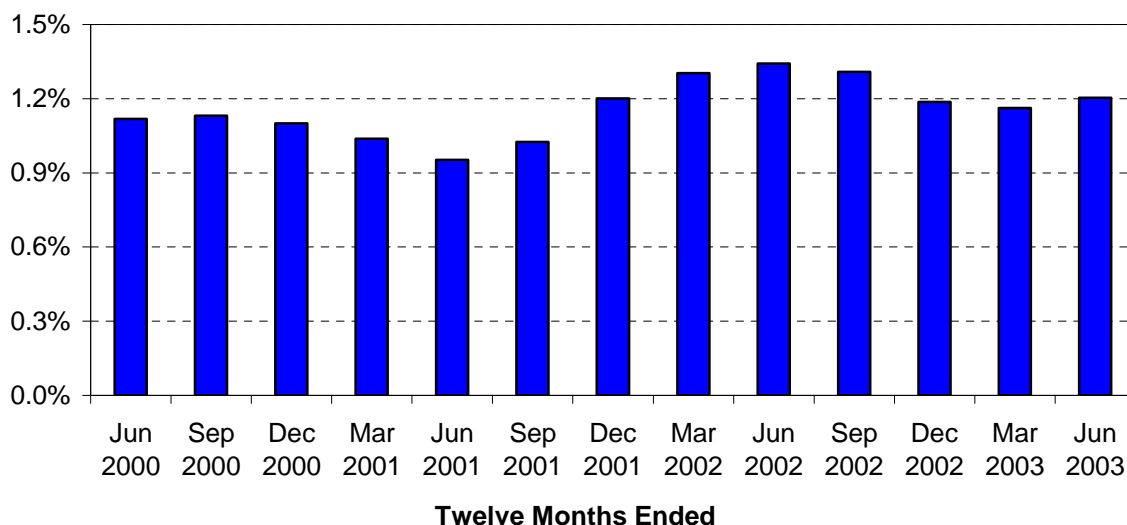
Operating Margin



Contractual Proportion



Charity Proportion



HOSPITAL PERFORMANCE STATEWIDE	Twelve Months Ended Jun 30, 2002	Twelve Months Ended Jun 30 2003	Total Change	Percent Change
Total Patient Revenue				
Inpatient	7,777,886,073	8,835,245,990	1,057,359,917	13.59%
Outpatient	5,892,457,283	6,949,860,665	1,057,403,382	17.95%
Total	13,670,343,356	15,785,106,655	2,114,763,299	15.47%
Medicare	4,656,474,192	5,362,202,636	705,728,444	15.16%
Medicaid	2,041,356,095	2,413,236,653	371,880,558	18.22%
Other	6,972,513,069	8,009,667,366	1,037,154,297	14.87%
Deductions From Revenue				
Contractual Adjustments				
Medicare	2,225,827,254	2,835,069,861	609,242,607	27.37%
Medicaid	967,808,890	1,205,339,913	237,531,023	24.54%
Other	2,822,020,581	3,313,104,204	491,083,623	17.40%
Total	6,015,656,725	7,353,513,978	1,337,857,253	22.24%
Charity	183,484,363	189,944,668	6,460,305	3.52%
Total	6,199,141,088	7,543,458,646	1,344,317,558	21.69%
Net Patient Revenue				
Medicare	2,430,646,938	2,527,132,775	96,485,837	3.97%
Medicaid	1,073,547,205	1,207,896,740	134,349,535	12.51%
Other	3,967,008,125	4,506,618,494	539,610,369	13.60%
Total	7,471,202,268	8,241,648,009	770,445,741	10.31%
Total Operating Expenses	7,266,866,036	7,988,446,543	721,580,507	9.93%
Net Operating Income	204,336,232	253,201,466	48,865,234	23.91%
Days in Accounts Receivable				
Medicare	52.6	46.6	-6.0	-11.33%
Medicaid	71.1	67.8	-3.3	-4.62%
Other Payers	72.1	66.4	-5.7	-7.90%
Statewide Total	65.3	59.9	-5.4	-8.27%
Utilization				
Discharges	513,971	516,492	2,521	0.49%
Patient Days	2,233,479	2,246,860	13,381	0.60%
Length of Stay	4.35	4.35	0.00	0.11%
Adjusted Discharges	913,355	930,843	17,488	1.91%
Rates				
Tot Rev Per Adj Disch	14,967.17	16,957.86	1,990.69	13.30%
Deductions Per Adj Disch	6,787.22	8,103.90	1,316.68	19.40%
Net Revenue Per Adj Disch	8,179.95	8,853.96	674.01	8.24%
Oper Expense Per Adj Disch	7,956.23	8,581.95	625.71	7.86%
Net Income Per Adj Disch	223.72	272.01	48.29	21.59%
Financial Ratios				
Operating Margin	2.59%	2.91%	0.32%	12.23%
Deductible Proportion	45.35%	47.79%	2.44%	5.38%
Contractual Proportion - Total	44.01%	46.59%	2.58%	5.86%
Contractual Proportion - Medicare	47.80%	52.87%	5.07%	10.61%
Contractual Proportion - Medicaid	47.41%	49.95%	2.54%	5.35%
Contractual Proportion - Other	40.47%	41.36%	0.89%	2.20%
Charity Proportion	1.34%	1.20%	-0.14%	-10.35%
Total Rev/Inpat Rev	1.76	1.79	0.03	1.65%
Outpat Rev Percent	43.10%	44.03%	0.92%	2.14%
Medicare Rev Percent	34.06%	33.97%	-0.09%	-0.27%
Medicaid Rev Percent	14.93%	15.29%	0.36%	2.38%